

SHENANDOAH COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS & QUESTIONED COSTS

JUNE 30, 2006

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Shenandoah Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Margaret Brady	President	2006
Ken Lee	Vice President	2006
Roger Jones	Board Member	2007
Martin Maher	Board Member	2005
Marla Hart	Board Member	2005
Board of Education (After September 2005 Election)		
Margaret Brady	President	2006
Roger Jones	Vice President	2007
Ken Lee	Board Member	2006
Martin Maher	Board Member	2008
Marla Hart	Board Member	2008
School Officials		
Dick Profit	Superintendent	2006
Shirley Lundgren	Board Secretary/ Business Manager	2006
Jeffrey A. Krausman	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Shenandoah Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Shenandoah Community School District, Shenandoah, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Shenandoah Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2006 on our consideration of Shenandoah Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 16 and 40 through 41 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shenandoah Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 16, 2006

Management Discussion and Analysis

The discussion and analysis of Shenandoah Community School District's financial performance provides an overall review of the School District's financial activities, identifies changes in financial position and focuses on significant financial issues for the fiscal year ending June 30, 2006.

The District is implementing new reporting standards this fiscal year. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the School District's revenues and expenditures by program for the General Fund, Management Fund, Capital Projects Fund, Debt Service Fund, Internal Services Fund, PPEL Fund, Activity Fund, Trust Fund, Agency Fund and Nutrition Fund.

This reporting model offers a narrative overview and analysis of the school district's financial performance during the fiscal year. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Since the MD&A provides summary level financial information, readers are encouraged to consider this information with the basic financial statements to understand the School District's financial performance.

Comprehensive comparison to the prior year's data will be provided for all key financial information.

FINANCIAL HIGHLIGHTS

- ◆ General Fund revenues increased from \$7,538,998 in fiscal year 2005 to \$8,076,582 in fiscal year 2006, while General Fund expenditures increased from \$7,435,383, in fiscal year 2005 to \$8,029,758 in fiscal year 2006. This resulted in an increase in the District's General Fund balance from \$1,435,547 in fiscal year 2005 to \$1,473,894 fiscal year 2006.
- ◆ The increase in general fund revenues was due to an increase in teacher compensation funds and an increase in state aid monies received. We received \$4,069,821 in state aid which is an increase of \$234,623 from the previous year.
- ◆ The increase in general fund expenditures was due to an increase in salary and benefits, due to the school district adding two middle school teachers and the payment of the additional teacher compensation funds.
- ◆ Phases I and II of the High School HVAC project was completed and Phase III and IV of the project was started.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The financial statements provide insights into the results of this year's operations. This annual report includes this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the District as a financial whole, an entire operating entity.

The Statement of Net Assets provides information about the activities of the School District as a whole, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the school district's most significant funds with all other non-major funds presented in total in one column. For Shenandoah Community School District, the general fund is the most significant fund. The PPEL fund is also a significant fund.

The first two statements are District-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the district, reporting the district's operations in more detail than the district-wide statements

The statements for governmental fund statements explain how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

The statements for proprietary fund statements offer short-term and long-term financial information about the activities the district operates like businesses, such as food service.

The statements for fiduciary fund statements provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

A government-wide financial statement is the statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statement of net assets presents the financial condition of the governmental activities of the district at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

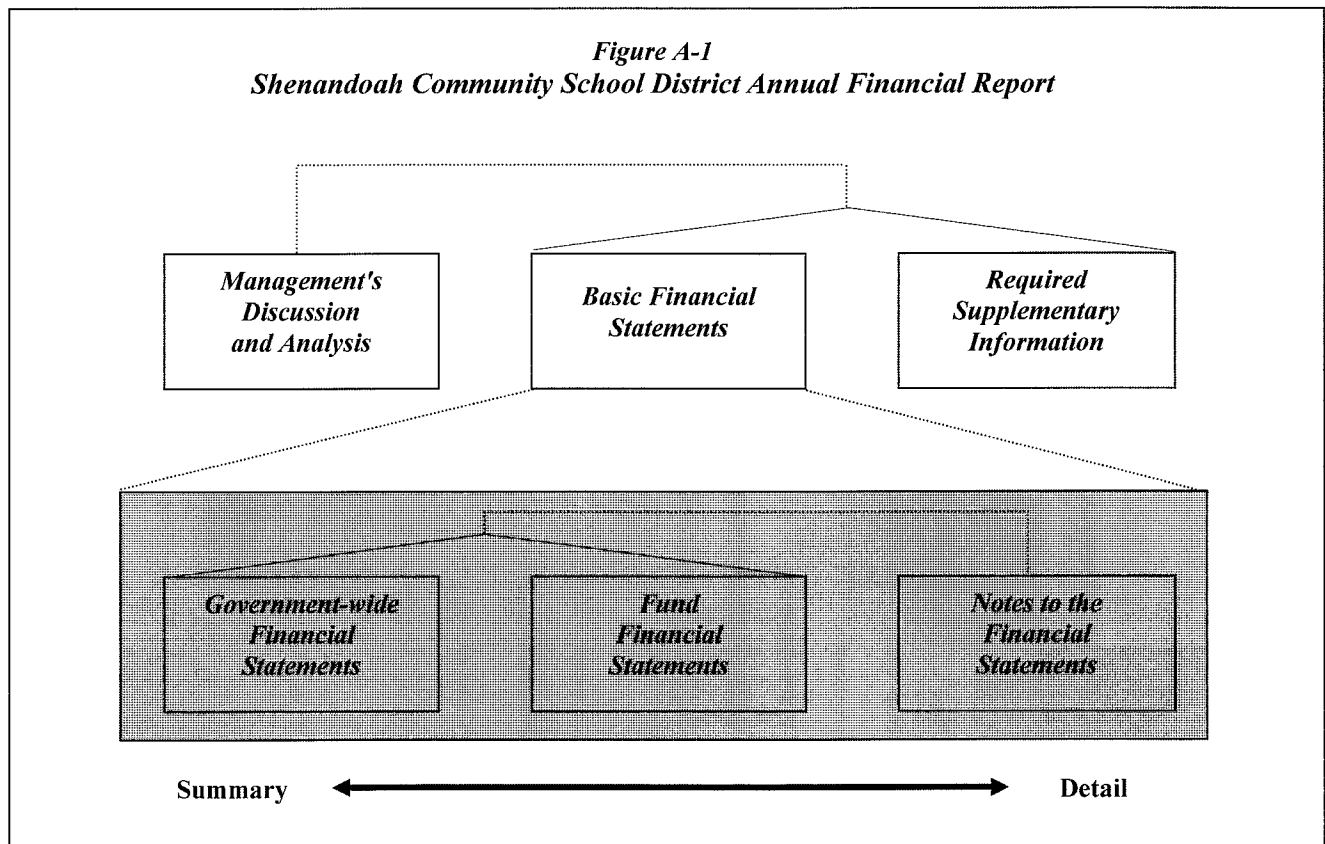


Figure A-2 on the next page summarizes the major features of the government-wide and fund financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and content of each of the statements.

Figure A-2: Major Features of the District Wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> ◆ Statement of net assets ◆ Statement of activities 	<ul style="list-style-type: none"> ◆ Balance sheet ◆ Statement of expenditures, revenues, and changes in fund balances 	<ul style="list-style-type: none"> ◆ Statement of net assets ◆ Statement of cash flows 	<ul style="list-style-type: none"> ◆ Statement of fiduciary net assets ◆ Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

GOVERNMENT-WIDE STATEMENTS -- REPORTING THE DISTRICT AS A WHOLE

One of the most important questions that can be asked about the school district is if it is better off or worse off financially than it was a year ago. The District-wide statements report information on the school district as a whole and include all assets and liabilities using the accrual basis of accounting. The accrual basis of accounting takes into accounts all of the current year's revenues and expenditures regardless of when the cash is received or paid.

The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities are one way to measure the School District's financial health or position. The change in net assets is important because it tells the reader that, for the School District as a whole, if the financial position has improved or diminished. Over time, increases or decreases in the School District's net assets are one indicator of whether its financial health is improving or deteriorating. The causes of this change may be the result of many factors, some financial and some not. The School District's goal is to provide services to our students, not to generate profits as commercial entities do. Therefore, to assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base, the condition of school buildings and other facilities, the quality of the education provided and the safety of the schools. All of these factors are used to assess the overall health of the School District.

Governmental Activities— Most of the school district's services is reported here, including regular and special education instruction, support, plant and transportation services. Property taxes, state foundation, categorical grants, and state and federal grants finance most these activities.

Business Type Activities – These funds are used to account for services provided to school districts where all or most of the costs are recovered through services charged to the users of such services, or from transfers from other funds. The district's food service program would be included here.

FUND FINANCIAL STATEMENTS -- REPORTING THE DISTRICT BY FUNDS

The School District's fund financial statements provide more detailed information about the School District's most significant or "major" funds – not the school district as a whole. The School District uses many funds to account for a multitude of financial transactions. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The funds are established to control and manage money for particular purposes such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants. Some funds are required by State law and some by bond covenants. The School District's major governmental funds are the General Fund, the Debt Service Fund and the Physical Plant and Equipment Fund.

The District has three types of funds – Governmental funds, Proprietary funds and Fiduciary funds.

Governmental funds: Most of the district's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

Proprietary funds: Services for which the district charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District has one enterprise fund, the School Nutrition Fund.

Fiduciary funds: The district is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds. Private-Purpose Trust funds accounts for outside donations to a school district for a specific purpose. Agency Funds are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

NET ASSETS

The Statement of Net Assets provides the summary of the School District as a whole.

Figure A-3 on the following page provides a summary of the District's net assets for the year ended June 30, 2006 totaling over \$8.98 million government-wide.

Unrestricted net assets of \$1,620,040 represent the accumulated results of all past year's operations of governmental activities. It means that if we had to pay off all of our bills today, including all of our liabilities, we would have \$1,620,040 left.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 7,912,954	8,445,506	96,211	98,080	8,009,165	8,543,586	-6.26%
Capital assets	14,607,485	14,219,986	105,199	83,745	14,712,684	14,303,731	2.86%
Total assets	22,520,439	22,665,492	201,410	181,825	22,721,849	22,847,317	-0.55%
Long-term obligations	9,978,676	9,835,650	0	0	9,978,676	9,835,650	1.45%
Other liabilities	3,754,407	4,053,509	4,433	2,915	3,758,840	4,056,424	-7.34%
Total liabilities	13,733,083	13,889,159	4,433	2,915	13,737,516	13,892,074	-1.11%
Net assets:							
Invested in capital assets, net of related debt	6,489,661	6,559,940	105,199	83,745	6,594,860	6,643,685	-0.73%
Restricted	677,925	667,771	0	0	677,925	667,771	1.52%
Unrestricted	1,620,040	1,548,622	91,778	95,165	1,711,818	1,643,787	4.14%
Total net assets	\$ 8,787,626	8,776,333	196,977	178,910	8,984,603	8,955,243	0.33%

CHANGES IN NET ASSETS

Figure A-4 on the next page shows the changes in net assets for the year ended June 30, 2006.

In Figure A-4 property tax, local option sales and services tax and unrestricted state grants account for 80.1% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 83.3% of the total expenses.

The total cost of our general fund activities this year was \$8.03 million. The amount that our taxpayers ultimately financed for general fund activities through school district taxes was \$2.36 million or 29.39% of our total program costs. Some of the costs were paid by those who benefited from the programs, and by subsidizing certain programs with grants and contributions and other miscellaneous sources.

Revenues increased because of the instructional support levy, increased teacher compensation, and additional open enrollment tuition income.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 499,522	746,658	189,655	195,494	689,177	942,152	-26.85%
Operating grants and contributions and restricted interest	1,061,999	918,752	236,324	218,045	1,298,323	1,136,797	14.21%
General revenues:							
Property tax	3,240,197	3,078,472	0	0	3,240,197	3,078,472	5.25%
Local option sales and services tax	539,770	455,718	0	0	539,770	455,718	100.00%
Unrestricted state grants	4,069,821	3,835,198	0	0	4,069,821	3,835,198	6.12%
Other	392,521	70,880	3,058	1,177	395,579	72,057	448.98%
Total revenues	9,803,830	9,105,678	429,037	414,716	10,232,867	9,520,394	7.48%
Program expenses:							
Governmental activities:							
Instructional	5,768,580	5,410,059	0	0	5,768,580	5,410,059	6.63%
Support services	2,378,032	2,251,568	0	0	2,378,032	2,251,568	5.62%
Non-instructional programs	0	20,236	424,945	389,129	424,945	409,365	3.81%
Other expenses	1,631,985	1,132,386	0	0	1,631,985	1,132,386	44.12%
Total expenses	9,778,597	8,814,249	424,945	389,129	10,203,542	9,203,378	10.87%
Excess of revenues over expenditures	25,233	291,429	4,092	25,587	29,325	317,016	-90.75%
Other financing sources(uses)							
Transfer in	0	0	13,975	0	13,975	0	100.00%
Transfer out	(13,940)	0	0	0	(13,940)	0	-100.00%
Total other financing sources(uses)	(13,940)	0	13,975	0	35	0	100.00%
Changes in net assets	11,293	291,429	18,067	25,587	29,360	317,016	-90.74%
Beginning net assets	8,776,333	8,484,904	178,910	153,323	8,955,243	8,638,227	3.67%
Ending net assets	\$ 8,787,626	8,776,333	196,977	178,910	8,984,603	8,955,243	0.33%

GOVERNMENTAL ACTIVITIES

Revenues for governmental activities were \$9,803,830 while expenditures were \$9,778,597. Total expenditures increased due to an increase in salaries and benefits and additional technology purchases.

Figure A-5 on the next page presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 5,768,580	4,518,919
Support services	2,378,302	2,372,364
Other expenses	1,631,985	1,325,793
Totals	\$ 9,778,867	8,217,076

Figure A-4 and A-5 on the previous page show:

- ◆ The cost financed by users of the District's programs was \$499,522.
- ◆ Federal and state governments subsidized certain programs with grants and contributions totaling \$1,061,999.
- ◆ The net cost of governmental activities was financed with \$3,240,197 in property tax, \$539,770 in local option sales and service tax and \$4,069,821 in unrestricted state grants and \$153,234 in interest income.
- ◆ A life skills program and junior kindergarten program was started. The middle school schedule was changed which added two teachers to the middle school staff.

BUSINESS-TYPE ACTIVITIES

Revenues of the District's business-type activities were \$429,037 while expenditures were \$424,945. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the school nutrition program installed a new point of sale at both the High School and PK-8 building and one additional food service worker was hired. Breakfast and lunch counts remain steady and our free and reduced counts remain high which generates additional federal and state lunch and breakfast reimbursements.

GOVERNMENTAL AND PROPRIETARY FUND HIGHLIGHTS

As previously noted, the Shenandoah Community School District used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The strong financial performance of the District as a whole is reflected in the governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$3,936,012 below last year's ending fund balance of \$4,287,592. The primary reason for the decrease in combined fund balance is the increases in negotiated salary and benefits as well as the bond defeasement the District completed as of year end.

Governmental Fund Highlights:

The District's general fund financial position is a product of many factors.

- ◆ The General Fund balance increased from \$1,435,547 to \$1,473,894 due in part to general fund revenues being more than adequate to cover the increase in expenditures.
- ◆ Other factors that affected the fund balance were: Increased enrollment Summer school; start of the Life Skills classroom; start of a Junior Kindergarten; addition of two middle school teachers; addition of four teacher associates and increased gasoline prices and utilities.

Proprietary Fund Highlights:

The School Nutrition Fund net assets increased from \$178,910 at June 30, 2005 to \$196,977 at June 30, 2006 an increase of 10.1%. The main increase came from additional revenues from federal lunch reimbursements.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget for all funds is prepared according on a GAAP basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 40 and 41.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

In spite of the District's practice, expenditures in the support services functional area exceeded budgeted amounts as of June 30, 2006.

The most significant budgeted fund is the General Fund.

- ◆ For the general fund, the actual cash revenues were \$8,076,582 and the actual cash expenditures were \$8,029,758. The general fund had an ending fund balance of \$1,473,894.
- ◆ Miscellaneous income was \$99,792 more than the previous year.

The other significant fund is the Physical Plant and Equipment Levy.

- ◆ For the PPEL fund, the actual cash revenues were \$358,799 and the actual cash expenditures were \$223,596. The PPEL fund had an ending fund balance of \$813,801.
- ◆ This year, out of the PPEL fund, some of the things the District purchased were a school bus; started the HVAC project at the high school and paid the debt payments for the street project and the bus lease.

Another significant fund is the Debt Service Fund.

- ◆ For the Debt Service fund, the actual cash revenues were \$442,371 and the actual cash expenditures were \$1,441,319. The Debt Service fund had an ending fund balance of \$786,676.
- ◆ This year, out of the Debt Service fund, the school district paid the debt interest and principal payments for the general obligation bonds, the QZAB bonds, the street project and the bus lease.

CAPITAL ASSETS

At June 30, 2006, the District had invested \$14,712,954 net of accumulated depreciation in a board range of capital assets, including land, buildings, athletic facilities, computers and transportation equipment. Governmental funds account for \$14,607,755 of the capital assets with the remainder of \$105,199 in the Proprietary, School Nutrition Fund. Depreciation expense for the year was \$528,950.

Figure A-6 presents the capital assets for the district.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 183,000	183,000	0	0	183,000	183,000	0.00%
Construction in progress	190,262	539,256	0	0	190,262	539,256	-183.43%
Buildings	13,549,381	12,832,794	0	0	13,549,381	12,832,794	5.29%
Land improvements	355,862	337,503	0	0	355,862	337,503	5.16%
Machinery and equipment	329,250	327,433	105,199	83,745	434,449	411,178	5.36%
Total	\$ 14,607,755	14,219,986	105,199	83,745	14,712,954	14,303,731	2.78%

LONG-TERM DEBT

As of June 30, 2006, the School District had \$9,978,676 in general obligation bonds, QZAB bonds, revenue bonds and other long-term debt outstanding. This represents an increase of 1.5% from last year.

There was \$7,385,000 in outstanding debt for the PK-8 building. The bonds are paid from property taxes and from Local Option Sales & Service tax monies. The debt will be paid over 30 years with the final payment due in fiscal year 2021. The school district refunded the original bonds during the FY 06 school year which will save approximately \$470,000 over the life of the bonds.

The School District had \$1,085,000 in outstanding debt for revenue bonds issued for the HVAC system at the high school. The bonds are paid from Local Option Sales & Service tax monies. The debt will be paid over five years with the final payment due in fiscal year 2011.

The School District had \$385,000 in outstanding debt for the street project for the PK-8 building. The assessment is paid from income surtax monies. The debt will be paid over 10 years with the last payment due in fiscal year 2012.

The School District had \$1,000,000 in outstanding debt for the Quality Zone Academy Bonds. The bonds are paid from the QZAB principal and interest and are backed by the income surtax monies. The debt is paid over 9 years with the last payment due in fiscal year 2011.

The School District had \$22,776 in an outstanding lease for a 2002 school bus. The lease is paid for from the PPEL Fund. The lease is paid in arrears with the last payment due in fiscal year 2008.

The School District had \$4,060 in outstanding debt for early retirements from past years. The early retirements are paid for from the Management Fund.

The School District had \$96,840 in outstanding debt for compensated absences from the current year. The compensated absences are paid for from the General Fund

Figure A-7 presents the outstanding long-term debt for the district.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General obligation bonds	\$ 7,385,000	7,160,000	3.1%
Revenue bonds	1,085,000	1,085,000	100.0%
QZAB	1,000,000	1,000,000	0.0%
Street assessment	385,000	445,000	-13.5%
Bus lease	22,776	33,221	-31.4%
Compensated absences	96,840	88,935	8.9%
Early Retirement	4,060	23,494	-82.7%
Totals	<u>\$ 9,978,676</u>	<u>9,835,650</u>	<u>1.5%</u>

FACTORS THAT IMPACT THE DISTRICT'S FUTURE

The Shenandoah Community School District is proud of the generous community support of the public schools.

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future.

The enrollment increased for the third time in eight years; the district needs to invest more money in technology; and an additional vehicle needs to be purchased. Health insurance costs continue to rise.

CONTACTING THE SCHOOL DISTRICT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Shenandoah Community School District's finances and to demonstrate the School District's accountability for the monies it receives. If you have questions about this report or should desire additional detailed financial program audits they can be obtained by contacting: Shirley Lundgren, Business Manager, Shenandoah Community School District, 304 W. Nishna Road, Shenandoah, IA 51601.

BASIC FINANCIAL STATEMENTS

SHENANDOAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	\$ 4,480,229	91,430	4,571,659
Receivables:			
Property tax:			
Delinquent	46,866	0	46,866
Succeeding year	2,922,929	0	2,922,929
Income surtax	279,622	0	279,622
Accounts	14,950	0	14,950
Due from other governments	166,981	0	166,981
Inventories	1,377	4,781	6,158
Capital assets, net of accumulated depreciation (Note 5)	14,607,755	105,199	14,712,954
TOTAL ASSETS	22,520,709	201,410	22,722,119
LIABILITIES			
Accounts payable	24,704	13	24,717
Salaries and benefits payable	739,299	569	739,868
Accrued interest payable	61,436	0	61,436
Deferred revenue:			
Succeeding year property tax	2,922,929	0	2,922,929
Other	6,039	3,851	9,890
Long-term liabilities (Note 4):			
Portion due within one year:			
General obligation bonds payable	210,000	0	210,000
Revenue bonds payable	200,000	0	200,000
Street assessment payable	60,000	0	60,000
Bus lease payable	11,062	0	11,062
Compensated absences	96,840	0	96,840
Early retirement payable	4,060	0	4,060
Portion due after one year:			
General obligation bonds payable	7,175,000	0	7,175,000
Revenue bonds payable	885,000	0	885,000
Street assessment payable	325,000	0	325,000
Bus lease payable	11,714	0	11,714
QZAB payable	1,000,000	0	1,000,000
TOTAL LIABILITIES	13,733,083	4,433	13,737,516
NET ASSETS			
Investment in capital assets, net of related debt	6,489,661	105,199	6,594,860
Restricted for:			
Phase III	4,380	0	4,380
Salary improvement program	1,605	0	1,605
Management levy	132,550	0	132,550
Physical plant and equipment levy	406,025	0	406,025
Special purposes by the board	33,832	0	33,832
Inventories	1,377	0	1,377
Other special revenue purposes	98,156	0	98,156
Unrestricted	1,620,040	91,778	1,711,818
TOTAL NET ASSETS	\$ 8,787,626	196,977	8,984,603

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Governmental activities:					
Instruction:					
Regular instruction	\$ 3,648,728	249,059	694,528	(2,705,141)	0
Special instruction	1,006,116	60,179	60,112	(885,825)	0
Other instruction	1,113,736	185,783	0	(927,953)	0
	5,768,580	495,021	754,640	(4,518,919)	0
Support services:					
Student services	187,155	0	0	(187,155)	0
Instructional staff services	359,094	0	0	(359,094)	0
Administration services	765,300	0	0	(765,300)	0
Operation and maintenance of plant services	712,369	0	0	(712,369)	0
Transportation services	354,114	4,501	1,167	(348,446)	0
	2,378,032	4,501	1,167	(2,372,364)	0
Other expenditures:					
Long-term debt interest	914,961	0	0	(914,961)	0
AEA flowthrough	306,192	0	306,192	0	0
Depreciation(unallocated)*	410,832	0	0	(410,832)	0
	1,631,985	0	306,192	(1,325,793)	0
Total governmental activities	9,778,597	499,522	1,061,999	(8,217,076)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	424,945	189,655	236,324	0	1,034
Total business-type activities	424,945	189,655	236,324	0	1,034
Total	\$ 10,203,542	689,177	1,298,323	(8,217,076)	1,034
General Revenues:					
Local tax for:					
General purposes				\$ 2,495,056	0
Debt Service				413,472	0
Capital outlay				331,669	0
Local option sales and services tax				539,770	0
Unrestricted state grants				4,069,821	0
Unrestricted investment earnings				153,234	3,058
Other				239,287	0
Total general revenues				8,242,309	3,058
Changes in net assets before other financing sources(uses)				25,233	4,092
Other financing sources (uses)					
Transfer in				0	13,975
Transfer out				(13,940)	0
Total other financing sources (uses)				(13,940)	13,975
Changes in net assets				11,293	18,067
Net assets beginning of year				8,776,333	178,910
Net assets end of year				\$ 8,787,626	196,977

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
ASSETS						
Cash and pooled investments						
Other	\$ 2,104,301	812,714	541,170	780,193	237,502	4,475,880
Receivables:						
Property tax:						
Delinquent	38,110	1,083	0	6,458	1,215	46,866
Succeeding year	2,324,829	97,275	0	380,825	120,000	2,922,929
Income surtax	31,069	248,553	0	0	0	279,622
Accounts	14,734	0	0	0	216	14,950
Inventories	1,168	0	0	0	209	1,377
Due from other governments	81,331	4	85,496	25	125	166,981
TOTAL ASSETS	\$ 4,595,542	1,159,629	626,666	1,167,501	359,267	7,908,605
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	20,412	0	0	0	4,292	24,704
Salaries and benefits payable	739,299	0	0	0	0	739,299
Deferred revenue:						
Succeeding year property tax	2,324,829	97,275	0	380,825	120,000	2,922,929
Income surtax	31,069	248,553	0	0	0	279,622
Other	6,039	0	0	0	0	6,039
Total liabilities	3,121,648	345,828	0	380,825	124,292	3,972,593
Fund balances:						
Reserved for:						
Phase III	4,380	0	0	0	0	4,380
Salary improvement program	1,605	0	0	0	0	1,605
Debt service	0	0	0	786,676	0	786,676
Special purposes by the Board	33,832	0	0	0	0	33,832
Inventories	1,168	0	0	0	209	1,377
Unreserved:						
General	1,432,909	0	0	0	0	1,432,909
Management	0	0	0	0	136,610	136,610
Capital Projects	0	0	626,666	0	0	626,666
Physical plant and equipment levy	0	813,801	0	0	0	813,801
Other special revenue purposes	0	0	0	0	98,156	98,156
Total fund balances	1,473,894	813,801	626,666	786,676	234,975	3,936,012
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,595,542	1,159,629	626,666	1,167,501	359,267	7,908,605

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 19) \$ 3,936,012

*Amounts reported for governmental activities in the
 statement of net assets are different because:*

Capital assets used in governmental activities are not
 financial resources and, therefore, are not reported as
 assets in the governmental funds. 14,607,755

Blending of the Internal Service Funds to be reflected on
 an entity-wide basis. 4,349

Accounts receivable income surtax, are not yet available
 to finance expenditures of the current period. 279,622

Accrued interest payable on long-term liabilities is not
 due and payable in the current period and, therefore, is
 not reported as a liability in the governmental funds. (61,436)

Long-term liabilities, including early retirement,
 compensated absences, general obligation bonds payable,
 revenue bonds payable, QZAB bonds payable and bus lease
 payable are not due and payable in the current period and,
 therefore, are not reported as liabilities in
 the governmental funds. (9,978,676)

Net assets of governmental activities (page 17) \$ 8,787,626

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:						
Local sources:						
Local tax	\$ 2,357,702	331,669	539,770	413,472	75,216	3,717,829
Tuition	309,238	0	0	0	0	309,238
Other	278,372	27,062	51,052	28,493	197,826	582,805
State sources	4,775,025	68	0	406	76	4,775,575
Federal sources	356,245	0	0	0	0	356,245
Total revenues	8,076,582	358,799	590,822	442,371	273,118	9,741,692
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	3,587,389	0	0	0	77,158	3,664,547
Special instruction	1,011,712	0	0	0	0	1,011,712
Other instruction	943,353	0	0	0	174,049	1,117,402
	5,542,454	0	0	0	251,207	5,793,661
Support services:						
Student services	194,277	0	0	0	0	194,277
Instructional staff services	320,350	32,671	0	0	0	353,021
Administration services	741,218	0	0	0	999	742,217
Operation and maintenance of plant services	649,800	34,668	0	0	56,624	741,092
Transportation services	275,467	55,732	0	0	16,647	347,846
	2,181,112	123,071	0	0	74,270	2,378,453
Other expenditures:						
Facilities acquisitions	0	100,525	657,084	0	0	757,609
Long-term debt:						
Principal	0	0	0	471,177	0	471,177
Interest and fiscal charges	0	0	0	970,142	0	970,142
AEA flowthrough	306,192	0	0	0	0	306,192
	306,192	100,525	657,084	1,441,319	0	2,505,120
Total expenditures	8,029,758	223,596	657,084	1,441,319	325,477	10,677,234
Excess(deficiency) of revenues over(under) expenditures	46,824	135,203	(66,262)	(998,948)	(52,359)	(935,542)
Other financing sources(uses):						
Refunding debt issued	0	0	0	7,580,000	0	7,580,000
Premium on refunding bonds issued	0	0	0	19,756	0	19,756
Discount on bonds issued	0	0	0	(48,436)	0	(48,436)
Payment to escrow agent	0	0	0	(7,005,000)	0	(7,005,000)
School bus lease issued	0	50,732	0	0	0	50,732
Transfers in	4,648	0	0	401,361	700	406,709
Transfers out	(13,975)	(242,379)	(158,982)	0	(5,313)	(420,649)
Sale of equipment	850	0	0	0	0	850
Total other financing sources(uses)	(8,477)	(191,647)	(158,982)	947,681	(4,613)	583,962
Net change in fund balances	38,347	(56,444)	(225,244)	(51,267)	(56,972)	(351,580)
Fund balance beginning of year	1,435,547	870,245	851,910	837,943	291,947	4,287,592
Fund balance end of year	\$ 1,473,894	813,801	626,666	786,676	234,975	3,936,012

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 21) \$ (351,580)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 904,350	
Depreciation expense	(515,307)	
Loss on disposal of capital assets	(424)	388,619

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 811

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities in an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(7,580,000)	
Repaid	7,424,595	(155,405)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 55,181

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 62,138

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(7,905)	
Early retirement	19,434	11,529

Changes in net assets of governmental activities (page 18) \$ 11,293

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Business-Type Activities	
	Enterprise: Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 91,430	4,349
Inventories	4,781	0
Capital assets, net of accumulated depreciation (Note 5)	105,199	0
TOTAL ASSETS	201,410	4,349
LIABILITIES		
Accounts payable	13	0
Salaries and benefits payable	569	0
Deferred revenue:		
Other	3,851	0
TOTAL LIABILITIES	4,433	0
NET ASSETS		
Investment in capital assets, net of related debt	105,199	0
Unrestricted	91,778	4,349
TOTAL NET ASSETS	\$ 196,977	4,349

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activites:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 189,655	29,900
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	136,405	0
Benefits	32,153	29,089
Services	6,096	0
Supplies	236,648	0
Depreciation	13,643	0
TOTAL OPERATING EXPENSES	424,945	29,089
OPERATING INCOME (LOSS)	(235,290)	811
NON-OPERATING REVENUES:		
State sources	5,616	0
Federal sources	230,708	0
Interest on investments	3,058	0
TOTAL NON-OPERATING REVENUES	239,382	0
Net income before other financing sources	4,092	811
OTHER FINANCING SOURCES		
Transfer in	13,975	0
Change in net assets	18,067	811
Net assets beginning of year	178,910	3,538
Net assets end of year	\$ 196,977	4,349

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 188,724	0
Cash received from miscellaneous	1,898	29,900
Cash payments to employees for services	(167,989)	(29,089)
Cash payments to suppliers for goods or services	(218,734)	0
Net cash provided by(used in) operating activities	(196,101)	811
Cash flows from non-capital financing activities:		
Transfer from General Fund	13,975	
State grants received	5,616	0
Federal grants received	205,882	0
Net cash provided by non-capital financing activities	225,473	0
Cash flows from capital and related financing activities:		
Purchase of capital assets	(35,097)	0
Net cash used in capital and related financing activities	(35,097)	0
Cash flows from investing activities:		
Interest on investments	3,058	0
Net cash provided by investing activities	3,058	0
Net increase(decrease) in cash and cash equivalents	(2,667)	811
Cash and cash equivalents at beginning of year	94,097	3,538
Cash and cash equivalents at end of year	\$ 91,430	4,349
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (235,290)	811
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	24,826	0
Depreciation	13,643	0
Increase in inventories	(829)	0
Decrease in accounts receivable	31	0
Increase in accounts payable	13	0
Increase in salaries and benefits payable	569	0
Increase in deferred revenue	936	0
Net cash provided by(used in) operating activities	\$ (196,101)	811
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 91,430	4,349

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$24,826.

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

		<u>Private Purpose</u>
		<u>Trust</u>
		<u>Scholarship</u>
ASSETS		
Cash and pooled investments	\$	262,040
Interest receivable		39
		<u>262,079</u>
LIABILITIES		<u>0</u>
NET ASSETS		
Reserved for scholarships	\$	<u><u>262,079</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Scholarship
Additions:	
Gifts and contributions	\$ 277
Interest on investments	9,688
Total additions	<u>9,965</u>
Deductions:	
Scholarships awarded	<u>4,931</u>
Excess of revenues over expenditures	5,034
Other financing sources(uses):	
Transfer in	165
Transfer out	(200)
Total other financing sources(uses)	<u>(35)</u>
Change in net assets	4,999
Net assets beginning of year	<u>257,080</u>
Net assets end of year	<u><u>\$ 262,079</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Shenandoah Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the city of Shenandoah, Iowa, and the predominate agricultural territory in Page, Fremont, Montgomery and Mills Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Shenandoah Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Shenandoah Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Page, Fremont, Montgomery and Mills Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for equipment purchases as well as capital improvements.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the

District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private-Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year.

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Land improvements	3,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. For the year ended June 30, 2006, expenditures in the support services functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 3,457,489

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rate Aaa by Moody's Investors Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	PPEL	\$ 242,379
Debt Service	Capital Projects	158,982
Nutrition	General	13,975
General	Management	3,916
General	Activity	732
Expendable Trust	Activity	500
Expendable Trust	Non-Expendable Trust	200
Non-Expendable Trust	Activity	165
Total		\$ 420,849

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 7,160,000	7,580,000	7,355,000	7,385,000	210,000
Revenue bonds	1,085,000	0	0	1,085,000	200,000
QZAB	1,000,000	0	0	1,000,000	0
Street assessment	445,000	0	60,000	385,000	60,000
Bus lease	33,221	50,732	61,177	22,776	11,062
Compensated absences	88,935	96,840	88,935	96,840	96,840
Early Retirement	23,494	0	19,434	4,060	4,060
Total	\$ 9,835,650	7,727,572	7,584,546	9,978,676	581,962

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Issue dated September 28, 2005			
		Principal	Interest	Total	
2007	3.50 %	\$ 420,000	260,825	680,825	
2008	3.50	430,000	246,125	676,125	
2009	3.50	450,000	230,812	680,812	
2010	3.50	460,000	214,975	674,975	
2011	3.50	475,000	198,787	673,787	
2012	3.50	495,000	182,075	677,075	
2013	3.50	510,000	164,487	674,487	
2014	3.50	535,000	146,550	681,550	
2015	3.55	545,000	127,650	672,650	
2016	3.65	565,000	107,985	672,985	
2017	3.65	590,000	87,159	677,159	
2018	3.65	615,000	65,441	680,441	
2019	3.70	635,000	42,578	677,578	
2020	3.75	660,000	18,563	678,563	
Total		\$ 7,385,000	2,094,012	9,479,012	

Revenue Bonds

Details of the District's June 30, 2006 revenue bonded indebtedness is as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2007	3.90 %	\$ 200,000	38,415	238,415
2008	3.90	210,000	30,420	240,420
2009	3.90	215,000	22,132	237,132
2010	3.90	225,000	13,553	238,553
2011	3.90	235,000	4,582	239,582
Total		\$ 1,085,000	109,102	1,194,102

Quality Zone Academy Bonds Payable

During the year ended June 30, 2002, the District issued zero interest Quality Zone Academy Bonds (QZAB). Annual transfers from the Capital Projects Fund to a Debt Sinking Fund will be made to pay the indebtedness due November 13, 2011, of \$1,000,000.

Street Assessment Payable

Details of the District's June 30, 2006 street assessment payable indebtedness are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 60,000	\$ 17,838	77,838
2008	65,000	15,438	80,438
2009	65,000	12,675	77,675
2010	65,000	9,750	74,750
2011	65,000	6,663	71,663
2012	65,000	3,412	68,412
Total	\$ 385,000	65,776	450,776

Bus Lease Payable

Details of the District's June 30, 2006 bus lease payable indebtedness are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 11,062	\$ 1,344	12,406
2008	11,714	691	12,405
Total	\$ 22,776	2,035	24,811

Early Retirement

The District offers a voluntary early retirement plan to its licensed employees. Eligible employees must be at least age 58 but may not surpass age 62 on or before June 30 of the year in which the employee wishes to retire and employees must have completed at least ten years of full-time service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive is \$10,000. The District did not have an early retirement policy for FY 06. It is a policy that ends each year at June 30th and the board looks at it each fall to see if it will be offered on a year to year basis.

Early retirement benefits paid during the year ended June 30, 2006 totaled \$19,434 from the Special Revenue Fund, Management Levy. The cost of early retirement payments expected to be liquidated currently are recorded as a liability in the government-wide Statement of Net Assets representing the District's commitments to fund non-current early retirement.

(5) **Capital Assets**

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 183,000	0	0	183,000
Construction in progress	539,256	747,724	1,096,718	190,262
Total capital assets not being depreciated	<u>722,256</u>	<u>747,724</u>	<u>1,096,718</u>	<u>373,262</u>
Capital assets being depreciated:				
Buildings	17,909,825	1,096,718	0	19,006,543
Land improvements	637,939	49,060	0	686,999
Machinery and equipment	1,241,711	107,566	14,537	1,334,740
Total capital assets being depreciated	<u>19,789,475</u>	<u>1,253,344</u>	<u>14,537</u>	<u>21,028,282</u>
Less accumulated depreciation for:				
Buildings	5,077,031	380,131	0	5,457,162
Land improvements	300,436	30,701	0	331,137
Machinery and equipment	914,278	104,475	13,263	1,005,490
Total accumulated depreciation	<u>6,291,745</u>	<u>515,307</u>	<u>13,263</u>	<u>6,793,789</u>
Total capital assets being depreciated, net	<u>13,497,730</u>	<u>738,037</u>	<u>1,274</u>	<u>14,234,493</u>
Governmental activities capital assets, net	<u>\$ 14,219,986</u>	<u>1,485,761</u>	<u>1,097,992</u>	<u>14,607,755</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 181,764	35,097	0	216,861
Less accumulated depreciation	98,019	13,643	0	111,662
Business-type activities capital assets, net	<u>\$ 83,745</u>	<u>21,454</u>	<u>0</u>	<u>105,199</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 6,218
Other	1,930
Support services:	
Student	4,459
Instructional	11,438
Operation and maintenance of plant services	13,494
Transportation	66,936
	<u>104,475</u>
Unallocated depreciation	<u>410,832</u>
Total governmental activities depreciation expense	<u>\$ 515,307</u>
Business-type activities:	
Food services	<u>\$ 13,643</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$287,856, \$268,885, and \$257,407 respectively, equal to the required contributions for each year.

(7) Risk Management

Shenandoah Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$306,192 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Bond Defeasement

On May 1, 2005, the District issued \$7,580,000 in general obligation bonds to advance refund \$7,005,000 of outstanding general obligation bonds dated March 13, 2000. The proceeds of the refunding issue has been placed in an irrevocable escrow account and have been invested in U.S. Government obligations which have been certified sufficient to pay all principal and interest on the refunded bonds. The new advance refunding bonds have been added to the appropriate financial statement and schedules. The District remains contingently liable in the remote possibility the account is insufficient to pay the refunding bonds. At June 30, 2006, \$6,845,000 of such bonds was outstanding. Defeasement of principal and interest for the year was \$160,000 and \$196,141. This advance refunding was undertaken to reduce total debt service payments over the next 15 years by \$469,976 and resulted in an economic gain of \$356,900.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, disbursements in the support services functional area exceeded the amount budgeted.

(11) Construction Commitment

The District has entered into contracts totaling \$603,542 for the Phase III and Phase IV of the HVAC project at the school. As of June 30, 2006, costs of \$190,262 had been incurred against the contract. The balance of \$413,280 remaining at June 30, 2006 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

SHENANDOAH COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 4,609,872	192,713	4,802,585	4,505,904	4,505,904	296,681
Intermediate sources	0	0	0	39,015	39,015	(39,015)
State sources	4,775,575	5,616	4,781,191	4,875,820	4,875,820	(94,629)
Federal sources	356,245	230,708	586,953	587,000	587,000	(47)
Total revenues	9,741,692	429,037	10,170,729	10,007,739	10,007,739	162,990
Expenditures:						
Instruction	5,793,661	0	5,793,661	7,575,475	7,575,475	1,781,814
Support services	2,378,453	0	2,378,453	2,240,000	2,240,000	(138,453)
Non-instructional programs	0	424,945	424,945	612,923	612,923	187,978
Other expenditures	2,505,120	0	2,505,120	4,112,497	4,112,497	1,607,377
Total expenditures	10,677,234	424,945	11,102,179	14,540,895	14,540,895	3,438,716
Excess(deficiency) of revenues over(under) expenditures	(935,542)	4,092	(931,450)	(4,533,156)	(4,533,156)	(3,601,706)
Other financing sources, net	583,962	13,975	597,937	0	0	(597,937)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(351,580)	18,067	(333,513)	(4,533,156)	(4,533,156)	(4,199,643)
Balance beginning of year	4,287,592	178,910	4,466,502	4,533,156	4,533,156	(66,654)
Balance end of year	\$ 3,936,012	196,977	4,132,989	0	0	4,132,989

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2006

	Manage- ment Levy	Student Activity	Expendable Trust	Total
ASSETS				
Cash and pooled investments	\$ 136,242	94,345	6,915	237,502
Receivables:				
Property tax:				
Current year delinquent	1,215	0	0	1,215
Succeeding year	120,000	0	0	120,000
Accounts	0	216	0	216
Due from other governments	5	120	0	125
Inventories	0	209	0	209
TOTAL ASSETS	\$ 257,462	94,890	6,915	359,267
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 852	3,440	0	4,292
Deferred revenue:				
Succeeding year property tax	120,000	0	0	120,000
Total liabilities	120,852	3,440	0	124,292
Fund balances:				
Reserved for inventories	0	209	0	209
Unreserved	136,610	91,241	6,915	234,766
Total fund balances	136,610	91,450	6,915	234,975
TOTAL LIABILITIES AND FUND BALANCES	\$ 257,462	94,890	6,915	359,267

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2006

	Manage- ment Levy	Student Activity	Expendable Trust	Total
REVENUES:				
Local sources:				
Local tax	\$ 75,216	0	0	75,216
Other	10,903	184,473	2,450	197,826
State sources	76	0	0	76
TOTAL REVENUES	86,195	184,473	2,450	273,118
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	77,158	0	0	77,158
Other instruction	0	170,899	3,150	174,049
Support services:				
Administration services	999	0	0	999
Operation and maintenance of plant services	56,624	0	0	56,624
Student transportation	16,647	0	0	16,647
TOTAL EXPENDITURES	151,428	170,899	3,150	325,477
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(65,233)	13,574	(700)	(52,359)
OTHER FINANCING SOURCES(USES):				
Transfers in	0	0	700	700
Transfers out	(3,916)	(1,397)	0	(5,313)
TOTAL OTHER FINANCING SOURCES(USES)	(3,916)	(1,397)	700	(4,613)
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	(69,149)	12,177	0	(56,972)
FUND BALANCE BEGINNING OF YEAR	205,759	79,273	6,915	291,947
FUND BALANCE END OF YEAR	\$ 136,610	91,450	6,915	234,975

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures and Interfund Transfers	Balance End of Year
Boys Basketball	\$ 0	4,351	4,351	0
MS Boys Basketball	0	831	831	0
Football	0	14,648	14,648	0
MS Football	0	1,110	1,110	0
Baseball	0	335	335	0
Boys Track	0	3,320	3,320	0
MS Boys Track	0	52	52	0
Boys Cross Country	0	806	806	0
Boys Tennis	0	17	17	0
Boys Golf	0	1,223	1,223	0
Wrestling	0	5,907	5,907	0
MS Wrestling	0	283	283	0
Girls Basketball	0	5,162	5,162	0
MS Girls Basketball	0	797	797	0
Volleyball	0	5,172	5,172	0
MS Volleyball	0	886	886	0
Softball	0	799	799	0
Girls Track	0	1,806	1,806	0
MS Girls Track	0	500	500	0
Girls Cross Country	0	721	721	0
Girls Golf	0	1,494	1,494	0
HS General Athletics	31,330	6,887	3,154	35,063
MS General Athletics	511	0	459	52
Annual	5,306	7,479	3,617	9,168
Cheerleaders	982	1,842	1,777	1,047
Class of 2005	511	0	511	0
Class of 2006	1,773	0	983	790
Class of 2007	1,926	6,924	7,179	1,671
Class of 2008	963	768	0	1,731
Class of 2009	0	895	27	868
Concession Pop	0	11,234	11,234	0
FFA	4,866	11,085	11,282	4,669
FCCLA	635	1,369	1,544	460
Interest	102	448	149	401
Marching Mustangs	1,906	458	355	2,009
National Art Honor Society	289	3,018	2,738	569
National Honor Society	17	0	0	17
Pep Club	86	0	0	86
Investment Interest	630	1,980	630	1,980
Shen Basketball Boys	255	518	632	141
Shen Basketball Girls	0	525	523	2
Shen Boys Golf	1,239	0	948	291
Shen Boys Cross Country	189	230	125	294
Shen Boys Tennis	519	99	232	386
Shen Boys Track	214	25	0	239
Shen Football	1,212	7,735	8,947	0
Shen Girls Track	169	386	555	0
Shen Girls Tennis	320	925	889	356
Shen Girls Cross Country	628	869	1,375	122
Shen Singers	1,068	941	881	1,128

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures and Interfund Transfers	Balance End of Year
Shen Singers	1,068	941	881	1,128
Shen Softball	673	1,921	2,387	207
Shen Volleyball	306	2,623	1,569	1,360
Shen Weight Club	629	1,575	1,784	420
Shen Wrestlers	1,873	4,439	4,716	1,596
SHS Speech Club	1,214	6,046	4,492	2,768
Student Activity	0	4,464	4,464	0
Student Council	5,694	17,334	17,271	5,757
Shen Baseball	604	1,359	1,261	702
MS Annual	1,491	2,899	2,596	1,794
MS Cheerleaders	371	0	0	371
MS FCCLA	1,050	3,815	3,546	1,319
MS Weight Room	250	1,774	1,969	55
MS Leadership Academy	1,755	164	295	1,624
MS Marching Mustangs	2,288	18,591	13,857	7,022
MS Swing Choir	2,293	103	201	2,195
MS Pride Builders	1,136	506	922	720
Total	\$ 79,273	184,473	172,296	91,450

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 3,717,829	3,536,193	3,754,560	3,841,094
Tuition	309,238	340,218	302,508	228,698
Other	582,805	476,170	555,042	359,445
Intermediate sources	0	0	36,106	32,480
State sources	4,775,575	4,419,245	4,041,618	4,124,883
Federal sources	356,245	334,296	368,460	355,722
Total	<u>\$ 9,741,692</u>	<u>9,106,122</u>	<u>9,058,294</u>	<u>8,942,322</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 3,664,547	3,301,558	3,262,129	3,040,843
Special instruction	1,011,712	1,053,146	1,461,875	1,207,787
Other instruction	1,117,402	1,058,543	674,085	683,090
Support services:				
Student services	194,277	169,318	169,012	131,803
Instructional staff services	353,021	349,654	253,071	376,276
Administration services	742,217	642,190	662,371	665,375
Operation and maintenance of plant services	741,092	767,799	531,580	511,242
Transportation services	347,846	257,666	230,387	264,665
Non-instructional programs	0	20,236	15,310	11,530
Other expenditures:				
Facilities acquisitions	757,609	702,778	341,688	1,284,673
Long-term debt:				
Principal	471,177	364,863	344,314	331,480
Interest	970,142	440,534	460,083	457,521
AEA flow-through	306,192	286,664	287,741	308,801
Total	<u>\$ 10,677,234</u>	<u>9,414,949</u>	<u>8,693,646</u>	<u>9,275,086</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 06	\$ 24,826
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	40,764
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	165,118
			<u>205,882</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 05	5,560
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 06	170,806
			<u>176,366</u>
SAFE AND DRUG-FREE SCHOOLS - STATES GRANTS	84.186	FY 06	<u>7,011</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA'S BILINGUAL AND ESL TRAINING PROGRAM)	84.215	FY 06	<u>22,965</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 05	<u>225</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	<u>62,578</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA PROGRAM)	84.369	FY 04	801
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA PROGRAM)	84.369	FY 05	6,114
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA PROGRAM)	84.369	FY 06	6,084
			<u>12,999</u>
IOWA WESTERN COMMUNITY COLLEGE: VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 06	<u>13,989</u>
INDIRECT:			
LOESS HILLS AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 05	<u>60,112</u>
TOTAL			<u>\$ 586,953</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Shenandoah Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Shenandoah Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Shenandoah Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 16, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shenandoah Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shenandoah Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Shenandoah Community School District and other parties to whom Shenandoah Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Shenandoah Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 16, 2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of the
Shenandoah Community School District:

Compliance

We have audited the compliance of Shenandoah Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Shenandoah Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Shenandoah Community School District's management. Our responsibility is to express an opinion on Shenandoah Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shenandoah Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shenandoah Community School District's compliance with those requirements.

In our opinion, Shenandoah Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Shenandoah Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Shenandoah Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in

our judgment, could adversely affect Shenandoah Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Shenandoah Community School District and other parties to whom Shenandoah Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

August 16, 2006

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - Individual
 - CFDA Number 84.010 – Title I grants to Local Educational agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Shenandoah Community School District did not qualify as a low-risk auditee.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties amount employees to prevent an individual employee from handling duties which are incompatible. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Personnel changes will allow us to have another person doing some of these duties.

Conclusion - Response accepted.

II-B-06 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - We are keeping time sheets for the non-certified coaches starting with the 2006-07 school year. At the annual fall meeting all coaches were informed of the law and procedure.

Conclusion - Response accepted.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553 – School Nutrition Program
CFDA Number 10.555 – National School Lunch Program
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010 – Title I – Grants to Local Educational Agencies
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties amount employees to prevent an individual employee from handling duties which are incompatible. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Personnel changes will allow us to have another person doing some of these duties.

Conclusion - Response accepted.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 exceeded the amount budgeted in the support services functional area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Disbursements exceeded the budgeted amount for the support services function due to last minute code changes mandated by the State of Iowa.

Conclusion - Response accepted

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - Business transactions between the District and District Officials or employees were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Ken Lee, Board Member Officiated for the District	Purchased Services	\$705
Mandy Maher, Superintendent's Secretary Owns Mints and More	Purchased Services	\$68

According to Chapter 279.7A of the Code of Iowa, the above transactions with the Ken Lee do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with the Mandy Maher do not appear to represent a conflict of interest.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely. We noted no significant deficiencies in the amounts reported.